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TreasuryPulse

POBO and COBO: Path to a Single-Account Structure?

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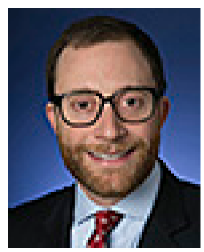

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Someday — still years from now — companies conceivably could boil down banking structures that encompass thousands of accounts at hundreds of banks, involving a wide range of currencies, into just one account. It would be sort of a cash management nirvana: complete control over global liquidity.

But how do you achieve that ideal?

Payments-on-behalf-of (POBO) and collections-on-behalf-of (COBO) structures could provide a path. With recent advances, they have become a much more achievable treasury goal.

Start with POBO and COBO

POBO and COBO, widely recognized as the most efficient of all global cash management structures, are typically implemented as the last stage of an in-house bank. They enable corporates to channel payments and/or collections through a single legal entity, so they can rationalize their accounts and simplify cash management structures by eliminating physical and notional concentration.

In traditional setups, payment factories automatically initiate outgoing payments from accounts owned by the participating group entities. The group entities instruct the payments, with the payment factory acting as a technical and operational processing hub.

When payments are instead routed through a payments-on-behalf-of model, both instruction for and settlement of payment is made from accounts centrally owned by Treasury. The group entity is noted in the payment reference field as the ordering party on whose behalf the payment factory initiates the transaction. The external bank accounts operated by the payment factory are replaced by internal accounts operated by the payment factory in the group's enterprise resource planning (ERP) system. The payment factory then initiates a payment to the third party.

Collections-on-behalf-of is similar, with the collections factory collecting on behalf of the group entities via a centrally owned external bank account.

POBO and COBO structures are being driven by the emergence of ERP systems and treasury workstations, as well as a greater understanding of local legal, tax and market practices. The Single Euro Payments Area (SEPA), with its ability to include ultimate debtor and creditor information that conveys which of a company's business units or subsidiaries the payments/collections are on behalf of, has been a major driver of these structures in Europe. Meanwhile, efforts to implement them in other regions, such as Asia, continue.

As understanding of local practices grows, POBO and COBO can enable more existing cash management structures to be replaced by a single account. However, in countries where these structures aren't viable today, treasurers are wise to continue to pursue traditional goals around cash visibility and concentration.

Global Cash Visibility

After years watching their companies expand internationally, open accounts and establish new bank relationships, treasurers received a wakeup call when the financial crisis struck. CFOs became intensely interested in the whereabouts of corporate cash, and many treasurers got to work harnessing an array of technology tools to enhance global cash visibility. They started leaning more on banks and sophisticated ERP and treasury management systems, which today automate the process of consolidating account data and centralizing that information. Indeed, with the aid of technology, many treasurers today can click a button on their computer dashboard in the morning and know to a reasonable certainty where most of their company's cash resides.

In countries not covered by POBO/COBO, such efforts to optimize cash visibility remain critical, because you need that visibility in order to mobilize cash.

Cash Concentration and In-house Banks

Once Treasury knows where the cash is — especially the cash outside of the POBO/COBO structures — the next steps are determining what cash to concentrate and how to maximize in-house bank effectiveness.

In order to improve access to cash and foreign exchange risk management, cash concentration structures should include all of your large cash positions and biggest currency exposures. Also, it is essential, in order to fund yourself, to ensure you are using those structures to cover all shortfalls with longfalls in your group.

More complex cash concentration structures benefit from efficient in-house banks. When evaluating the effectiveness of your in-house bank, start by asking whether you are running it using the most efficient technology and process. (We've seen clients who have centralized banking processes at a single shared services location, but they still have an inordinate number of people, in a roomful of computers, managing accounts at a host of banks.)

In-house banks also need to be as transparent as possible to ensure adherence to arms-length principles related to rates, as well as all regulatory and tax compliance requirements.

If you have an in-house bank, revisit physical pooling structures to make sure they remain necessary. For instance, in Europe, due to SEPA, your in-house bank can now manage a position in euro centrally. Given that, do you still need some of the legacy structures you have in place today, with subsidiary accounts in different countries, and notional and physical cash pools?

Within Reach

The ultimate goal of a single-account banking structure is within reach. By implementing POBO and COBO where possible today, and continuing to enhance cash visibility and optimize cash concentration and in-house bank structures, you can move your corporation closer and closer to the ideal cash management structure.